

Message Text

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PAGE 01 MANILA 01699 030226Z

22

ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-11 H-02 L-03 PRS-01

PA-01 USIA-06 CEA-01 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CIAE-00 COME-00 FRB-03

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR ZINMAN

E.O. 11652: ADS, DECLASS 5/2/76

TAGS: EAID, EFIN

SUBJECT: REVIEW OF BANK'S RESOURCE POSITION AND PROPOSAL FOR
INCREASE IN BANK'S CAPITAL STOCK

1. AT THE MEETING OF ADB BOARD OF DIRECTORS ON JAN. 27,
ADB CONTROLLER UNDER OTHER BUSINESS RESPONDED TO QUESTIONS
BY THE INDIAN ALTERNATE DIRECTOR AND OTHERS CONCERNING
BASIS FOR VALUATION AND CALCULATION OF PROPOSED
CAPITAL INCREASE AND RELATED SUBSCRIPTION PAYMENTS
IN VIEW OF UNCERTAINTY OF FUTURE RELATIONSHIP OF
GOLD TO U.S. DOLLARS. ADB PRESIDENT EXPLAINED THAT
SINCE JAMAICA DECISIONS WILL LARGELY FORMALIZE
CURRENT PRACTICE HE DID NOT ANTICIPATE SIGNIFICANT
DIFFERENCES IN COMPUTATION OF SUBSCRIPTION PAYMENTS
AND HOPED CAPITAL INCREASE WOULD NOT BE DELAYED. HE
SAID THAT BANK WILL STUDY ISSUE AND WILL KEEP DIRECTORS
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PAGE 02 MANILA 01699 030226Z

INFORMED.

2. ADB PRESIDENT POINTED OUT THAT IF THERE ARE AMENDMENTS TO ARTICLE 4 CONCERNING CHANGES IN BANK UNIT OF ACCOUNT THEY WOULD BE PROPOSED SIMULTANEOUSLY WITH OTHER INTERNATIONAL DEVELOPMENT BANKS TO FACILITATE LEGISLATIVE APPROVALS BY MEMBER GOVTS.

3. ADB PRESIDENT SAID THAT IMF MEMBER COUNTRIES APPEAR TO HAVE THREE ALTERNATIVES. THE FIRST IS DEFINITION OF A CURRENCY IN SDRS OR IN OTHER NON-GOLD CURRENCIES WHICH ARE FAVORED BY DEVELOPING COUNTRIES. SECOND IS A DEFINITION IN TERMS OF A GROUP OF CURRENCIES SUCH AS JOINT FLOAT OF EUROPEAN CURRENCIES. THE THIRD IS INDEPENDENT FLOATING WHICH MIGHT BE FAVORED BY U.S. AND JAPAN. IF U.S. SELECTS INDEPENDENT FLOAT, BANK COULD CONSIDER ADOPTING SDR UNIT OF ACCOUNT OR CONTINUE USE OF U.S. DOLLAR.

4. FYI FOLLOWING IS STATEMENT BY ADB CONTROLLER:
QUOTE

5. WITH REGARD TO THE PROPOSAL FOR AN INCREASE IN THE BANK'S CAPITAL STOCK, AS PRESENTED IN THE BOARD PAPER R111-75, I WOULD LIKE TO CLARIFY CERTAIN POINTS BECAUSE THERE HAVE BEEN SOME QUESTIONS RAISED AS TO THE BASIS FOR VALUATION AND CALCULATION OF THE PROPOSED INCREASE AND RELATED SUBSCRIPTION PAYMENTS IN VIEW OF THE UNCERTAINTY AS TO THE FUTURE RELATIONSHIP OF GOLD WITH US DOLLARS.

6. THE TOTAL AMOUNT OF THE PROPOSED CAPITAL INCREASE IS AN AMOUNT INNER QUOTE EQUAL TO AT LEAST 135 PERCENT OF THE CAPITAL STOCK OF THE BANK EXISTING IN 1977, END INNER QUOTE AS STATED IN PARAGRAPH 52(II) OF THE BOARD PAPER. THIS MEANS THAT THE BASIS OF VALUATION AND CALCULATION OF THE PROPOSED 135 PERCENT INCREASE IS THE VALUE OF THE ORIGINAL AUTHORIZED CAPITAL STOCK AS DEFINED IN ARTICLE 4 OF THE BANK'S CHARTER IN TERMS OF THE UNITED STATES DOLLAR OF THE WEIGHT AND FINENESS IN EFFECT ON 31 JANUARY 1966, I.E., THE US DOLLAR WITH A LIMITED OFFICIAL USE

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PAGE 03 MANILA 01699 030226Z

GOLD CONTENT OF 0.888671 GRAM, AND THE VALUE OF THE SUBSEQUENTLY INCREASED CAPITAL STOCK OF THE BANK ALSO IN TERMS OF THE 1966 US DOLLAR AND WITH THE SAME GOLD CONTENT AS DEFINED IN THE RELEVANT RESOLUTIONS OF THE BOARD OF GOVERNORS. SINCE THE VALUE OF THE ORIGINAL AUTHORIZED CAPITAL STOCK AND THE VALUE OF THE SUBSEQUENTLY INCREASED CAPITAL STOCK ARE CLEARLY DEFINED IN THE CHARTER AND THE RELEVANT RESOLUTIONS OF THE GOVERNORS, THERE

SHOULD BE NOT UNCERTAINTY ABOUT THE PROPOSED CAPITAL INCREASE.

7. IN THE BOARD PAPER, THE VARIOUS FIGURES ARE EXPRESSED IN TERMS OF CURRENT US DOLLARS FOR THE PURPOSE OF MAKING PROJECTIONS TO DETERMINE AN APPROPRIATE SIZE OF A CAPITAL INCREASE. THE FIGURES SO EXPRESSED IN CURRENT US DOLLARS, HOWEVER, WILL NOT NECESSARILY REPRESENT THE AMOUNTS OF SUBSCRIPTION PAYMENTS WHICH MEMBER COUNTRIES MAY MAKE UNDER THE PROPOSED CAPITAL INCREASE. THE ACTUAL CAPITAL SUBSCRIPTION PAYMENTS WHICH MEMBER COUNTRIES MAY MAKE UNDER THE PROPOSED CAPITAL INCREASE WILL DEPEND ON THE VALUE OF THE PARTICULAR CURRENCY TO BE USED BY MEMBER COUNTRIES IN, AND AT THE TIME OF, MAKING SUCH PAYMENTS, IN RELATION TO THE VALUE OF US DOLLARS IN EFFECT ON 31 JANUARY 1966.

8. SINCE THE AMOUNTS OF CAPITAL STOCK SUBSCRIBED BY MEMBER COUNTRIES AND THEIR OBLIGATIONS TO MAINTAIN THE VALUE OF THE CAPITAL STOCK ARE ALL BASED ON THE VALUE OF US DOLLARS IN EFFECT ON 31 JANUARY 1966, THE MAINTENANCE OF VALUE OBLIGATIONS OF MEMBER COUNTRIES WILL CONTINUE UNTIL AND UNLESS THERE IS A MAJOR CHANGE IN THE DEFINITION OF THE VALUE OF THE US DOLLAR OR IN THE DEFINITION OF THE VALUE OF THE CAPITAL STOCK OF THE BANK.

9. DEVELOPMENTS IN THIS REGARD WILL BE CAREFULLY FOLLOWED AND CLOSE CONTACT WILL BE MAINTAINED WITH THE IMF, THE IBRD AND OTHER SIMILAR INTERNATIONAL INSTITUTIONS. IN DUE COURSE, PROPOSALS WILL BE SUBMITTED TO THE BOARD, AS NECESSARY, TO CHANGE THE BANK'S PRESENT ARRANGEMENTS FOR VALUATION OF THE BANK'S SHARES, OF THE LIMITED OFFICIAL USE

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PAGE 04 MANILA 01699 030226Z

CURRENCIES HELD BY THE BANK AND FOR MAINTENANCE OF VALUE.
UNQUOTE.
SULLIVAN

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